ADDENDUM
VII

SECTION 236 AND SECTION 202 PRESERVATION PROGRAMS

The Program Statement was updated 08-25-2004

The Exhibit Checklist was updated 01-31-2005

NOTE: There are now separate checklists for each of the following programs:

- **Addendum I - LIHTC Program**
- **Addendum III - Special Needs Rental**
- **Addendum IV - Multi-Family Direct Lending/HOME Team Advantage**
- **Addendum V - Modified Pass Through Program**
- **Addendum VII - Section 236 and Section 202 Preservation Programs**

Please use the checklist applicable to the program for which you are applying.

The following items **MUST** be submitted if applicable to the project and/or for points to be given to the project. To indicate each exhibit submitted, place a check mark in the box provided and return a copy of this checklist with your application. Each submitted exhibit must be tabbed with the appropriate corresponding number from the checklist. **APPLICANTS APPLYING FOR MORE THAN ONE TYPE OF FINANCING MUST INCLUDE ALL APPLICABLE CHECKLISTS' EXHIBITS.**

This checklist is to be used for the Section 236 and Section 202 Preservation Programs. Two copies of all exhibits are required for applications for these two programs.

EXHIBIT CHECKLIST

Addendum VII:

√	#	Section 236 and Section 202 Preservation Programs
	1	**Prepayment Evidence** – Provide evidence that the current owner is legally entitled to prepay the existing mortgage, terminate the subsidies associated with the project, and take the units out of the inventory of affordable housing. **SUBMIT for PRESCREENING STAGE**
	2	**Description of Project-Based Subsidies** – Describe the Project-Based subsidies associated with the transaction. To what extent will existing project-based subsidies be either lost or enhanced with this transaction? Does the development currently benefit from tax abatement, and will that locally approved project assistance be continued. **SUBMIT for PRESCREENING STAGE**
	3	**Scope of Rehab** – Describe the proposed scope of rehabilitation. What reserves are currently available to address the physical needs of the property, and will those reserves be available following the sale? Provide a copy of the most recent REAC inspection, and any correspondence responding to that inspection. **SUBMIT for PRESCREENING STAGE**
	4	**Transition Plan** – Provide a transition plan detailing efforts the management agent will use to train staff and market units at significantly higher rents upon normal turnover. Provide the agent's plan to maintain existing residents through the construction and transition period. **SUBMIT for PRESCREENING STAGE**
	5	**Development Financial Statements** – Provide three years worth of audited financial statements that clearly set out the recent operating history of the development. Provide copies of all current subsidy contracts, the currently approved rental structure and tenant-paid utility allowances, and, if applicable, a copy of the current locally approved tax abatement ordinance pertaining to the development. **SUBMIT for PRESCREENING STAGE**
	6	**Development Competition** – Provide information on the competing developments in the immediate market area, both at the subject development's current rental structure and the rental structure that is proposed. The most recent Rent Comparability Study should be submitted. **SUBMIT for PRESCREENING STAGE**

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Addendum VII:

√	#	Section 236 and Section 202 Preservation Programs
	7	**Resident Information** – Provide copy of the development's current rent roll, and information on the current residents, including family size, gross household incomes, and unit size, as well as occupancy and turnover data for the previous three years. **SUBMIT for PRESCREENING STAGE**
	8	**Land Control** - Documentation signed by all applicable parties, in the form of warranty deed, exclusive option to purchase, land contract, etc., which evidences ability to maintain site control for 120 days from the date of application submission, with extensions available. Also provide the property's legal description. **SUBMIT for PRESCREENING STAGE**
	9	**Resumes** for all members of the development team. Include the **Professional license** for the architect, and a current **Michigan Residential Builders License** for the contractor. **SUBMIT for PRESCREENING STAGE**
	10	**A narrative description of the project** which includes the type of project; location; type of financing; tenants served, bedroom mix; local, federal or state subsidies; and other relevant information.
	11a	**Zoning** - Documentation from the appropriate local official on official letterhead (dated within 60 days of application submission), identifying the address of the project, the property's current zoning designation and an explanation of whether or not the project is permitted under the zoning ordinance. For rehabilitation projects, a letter from the municipality stating that the zoning is compatible with the proposed use of the buildings and that the planned rehabilitation is permitted, will be required**. If the project is not currently properly zoned, what, if any, steps are in process to obtain proper zoning for the proposed development. The documentation must include a timetable for rezoning. If rezoning is required you must also submit 3b and 3c below.**
	11b	**Zoning Map – if rezoning is required.**
	11c	**A certified copy of the Community Zoning Ordinance – if rezoning is required.**
	12	**Certified copy of city or township charter**
	13	**Site Utility Data:** - Submit utility calculations using the MSHDA Asset Management Division Utility Calculation format. Utility consumption data must be 90 days or less old. **You must submit both resident and development utility cost calculations.**
	14	**Market Study and Rent Comp Study** - See Tab C for specific guidelines. **Two copies** of each must be submitted and dated within six months of application submission **SUBMIT WITH THIS APPLICATION IF AVAILABLE. WILL BE REQUIRED DURING LOAN PROCESSING.**
	15	**Environmental Assessment** - Level 1 Environmental Assessment or, if necessary, a Level II with a remediation plan. Dated within six months of application submission. See Tab D for specific requirements. **SUBMIT WITH THIS APPLICATION IF AVAILABLE. WILL BE REQUIRED DURING LOAN PROCESSING.**
	16	**Mortgagee's Title Insurance Commitment** – a valid commitment setting forth all encumbrances on the property, together with copies of such encumbrances, and including 3.1 zoning and acceptable pending disbursement endorsements.
	17a	**Construction Financing** - Evidence of application to construction lender showing that application is under serious consideration.

EXHIBIT CHECKLIST

Addendum VII:

√	#	Section 236 and Section 202 Preservation Programs
	17b	**Confirmation of Secondary Financing** - if applicable. Proposals which rely on some form of secondary financing to achieve feasibility must be accompanied by a detailed explanation and a confirmation from the source of that secondary financing that the additional funds have been applied for and are (or are expected to be) available.
	17c	**Federal, State or Local Government Financing** - Letter from governmental body stating that application has been submitted and amount of request.
	17d	**Grants/Other Subsidies** – Letter from proposed grantor stating that application has been submitted and amount of request.
	18a	**Ownership Entity Formation –** Certified copy (dated within 30 days of application submission) of the certificate of limited partnership and any amendments on file with the Corporation and Land Development Bureau, and copy of limited partnership agreement with all amendments. **SUBMIT WITH THIS APPLICATION IF AVAILABLE. WILL BE REQUIRED DURING LOAN PROCESSING.**
	18b	**Owner Experience** – A completed **HUD Form 2530 Previous Participation Certificate must be submitted** for the **sponsor(s) In addition**, the **Owner Experience Form** on page 25 of the Primary Application **must be completed.**
	19a	**Management Entity Experience** – A completed **HUD Form 2530 Previous Participation Certificate must be submitted** for the management entity. **In addition**, the **Management Agent Experience Form** on page 26 of the Primary Application **must be completed.**
	19b	**Management Agent Qualification Data** – A completed Management Agent Qualification Data Package is required for all management agents that have not previously been approved to manage MSHDA financed developments or have not updated their Qualification Data within the past three years. Agents that have updated their Qualification Data within the past three years need to submit a copy of their approval letter with this package.
	20a	**Affirmative Fair Housing Marketing Plan** - See Tab P for AFHMP guidelines.
	20b	**Preliminary Equal Employment Opportunity Plan** – see Tab F for guidelines
	21	**Nonprofit/Ownership Documentation** – 1**) Certified copy** (dated within 30 days of application submission) of the following and any amendments on file with the Corporation and Land Development Bureau. **a)** Documentation of Federal 501(c)(3) or (4) status from the IRS (if applicable). **b)** A certified copy of the Articles of Incorporation dated within 30 days of application submission. **c)** Copy of by-laws **d)** List of the board of directors, if applicable; indicate which are representatives of the local community. **e)** An executed agreement between the sponsor and the non-profit if the project is a joint venture. **f)** Description of the non-profits previous experience in housing. Must complete form provided on Page 28 **g)** Narrative describing the non-profit's involvement in the local community **h)** Current Certificate of Good Standing dated within 30 days of application submission. **i)** Map outlining service area of non-profit. **j)** Proof of CHDO approval if using HOME funds in transaction. 2) **HUD Form 2530 Previous Participation Certificate** must be submitted for the ownership entity and its officers.

EXHIBIT CHECKLIST

Addendum VII:

√	#	Section 236 and Section 202 Preservation Programs
	22	**Tax Abatement -** Proof of tax abatement for the term of the new loan and a certified copy of the granting municipality's tax abatement ordinance and any amendments to the ordinance.
	23	**Proof of Local Taxation Rate (if no tax abatement)** For acquisition/ rehabilitation a tax bill, along with a letter verifying there are not any mil increases or special assessments that do not appear on the bill, will meet this requirement.
	24	**Site Plan Approval** - For rehabilitation projects, a letter from the municipality indicating that the relevant board or commission of the municipality has reviewed the proposal, including the level of rehabilitation work to be completed, the site, and that no further plan approvals are necessary.
	25	**Schematics** – For rehabilitation projects, schematics and scope of work based on CNA and architects analysis of rehab needs. This information is needed as early as possible. **SUBMIT WITH THIS APPICATION IF AVAILABLE. WILL BE REQUIRED DURING LOAN PROCESSING.**
	26a	**Trade Payment Breakdown** – If applicable. Submit on the MSHDA Trade Payment Breakdown Form (TAB AA)
	26b	**Other Construction Charges**
	26c	**Capital Needs Assessment –** A 20 year Capital Needs Assessment (CNA) with itemized cost breakdown is required. The CNA will be done by a third party contracted by the Authority. The CNA will take approximately 60-85 days to complete from the time it is requested. Therefore, applicants may submit a request for the CNA to be ordered prior to the submission of the Combined Application together with funds to pay for the CNA ($5,000).
	27	**Surveyor's Certificate of Facts and the ALTA Survey** - Refer to MSHDA's Legal Form 025 and 026 for Surveyors Certificate and survey standards to be submitted. Ensure that any encumbrances of records are included. (TAB EE and TAB U)
	28	**Proforma –** along with supporting income and expense data. The proforma must cover the term of the new loan and demonstrate the financial feasibility of the proposal.
	29	**Transaction Costs –** An origination fee of 2% will be collected at closing. A credit will be given for the preservation application fee but not for the tax credit fees or extension fees.
	30a	**Certification by Architect** – For rehabilitation projects, certification as to the completeness of rehab plans and specifications at mortgage loan commitment. The certification should include language verifying that the plans and specs meet the needs identified under the CNA and architect's physical inspection of property. **SUBMIT WITH THIS APPLICATION IF AVAILABLE. WILL BE NEEDED PRIOR TO MORTGAGE LOAN COMMITMENT.**
	30b	**Architects Errors and Omissions Professional Liability Insurance** – Include both the current certificate of insurance and a copy of the policy.
	31	**Contractors or Certified Construction Project Manager Qualification Statement** (AIA Document A305 - available from MSHDA upon request). In addition, **HUD Form 2530 Previous Participation Certificate** must be submitted for the contractor or construction project manager.

EXHIBIT CHECKLIST

Addendum VII:

√	#	Section 236 and Section 202 Preservation Programs
	32	**Financial Statements** for the sponsor(s) and builder. Individual sponsors must submit the form Individual Financial Statement (the form is available from MSHDA upon request). Financial statements must be current, which is defined as not more than six months earlier than the date the proposal is submitted. MSHDA requires that financial statements be updated every six months throughout the development and construction process.
	33	**Owner Architect Agreement** – Submit fully executed Legal Form 023. (TAB BB)
	34	**Letter of Intent and/or Syndication Partnership Agreement** – Submit a copy of the letter of intent and/or Syndication Partnership Agreement, including pay-in schedule, from the equity provider.

Section 236 and Section 202 Preservation Program – Tax-Exempt Bonding
Revised August 25, 2004

The Michigan State Housing Development Authority is entertaining proposals for the preservation of Section 236 and Section 202 rental housing developments. These developments are eligible for mortgage loan prepayment and conversion to unregulated use and may be lost to the affordable housing inventory in Michigan.

These developments fall into two general categories:

Developments originally financed by MSHDA with tax-exempt bonds for which MSHDA remains the mortgagee. These developments often (though not always) have project-based Rent Supplement or RAP contracts that further assist a percentage of the residents. They may have accumulated reserves that MSHDA will make available as a loan with favorable terms to assist in funding the transaction.

Developments originally insured by HUD, with private sector, taxable mortgage financing. These developments often (though again not always) have Management Section 8 HAP contracts that further assist some number of the existing residents. Accumulated reserves most typically are retained by the Seller on non-MSHDA mortgages.

Section 202 Preservation proposals will be considered and processed on a case-by-case basis. Processing and underwriting standards may vary from those described in this program statement.

Pre-Application Stage

Proposals will only be accepted after a preliminary screening process has been completed by MSHDA and a formal, written invitation to submit the proposal has been received by the sponsor. The fee for the pre-application review is $500 and is non-refundable. When submitting a pre-application, the sponsor must address all of the following selection criteria:

1. Provide evidence that the current owner is legally entitled to prepay the existing mortgage, terminate the subsidies associated with the project, and take the units out of the inventory of affordable housing.

2. Describe the Project-Based subsidies associated with the transaction. To what extent will existing project-based subsidies be either lost or enhanced with this transaction? Does the development currently benefit from tax abatement, and will that locally-approved project assistance be continued?

3. Describe the proposed scope of rehabilitation. What reserves are currently available to address the physical needs of the property, and will those reserves be available following the sale? Provide a copy of the most recent REAC inspection, and any correspondence responding to that inspection.

4. What property management firm is proposed to assume responsibility following the transaction? Provide a transition plan detailing the efforts the agent will use to train staff and market units at significantly higher rents upon normal turnover. Provide the agent's plan to maintain existing residents through the construction and transition period.

5. Provide information as to the unit breakdown, accurate square footages for the individual unit types, and the common space and amenities to be provided following the transaction.

6. Provide three years of audited financial statements that clearly set out the recent operating history of the development. Provide copies of all current subsidy contracts, the currently-approved rental structure and tenant-paid utility allowances, and, if applicable, a copy of the locally-approved tax abatement ordinance pertaining to the development.

7. Provide information on the competing developments in the immediate market area, both at the subject development's current rental structure and the rental structure that is proposed. The most recent Rent Comparability Study should be submitted.

8. Provide information on the current residents of the development, including family size, gross household incomes, and unit size, as well as occupancy and turnover data for the previous 3 years.

9. Provide detailed resumes for all development team members, including the sponsor, the architect, the builder, and the property management firm.

10. Provide evidence of property control, in the form of an option or purchase agreement, and title commitment.

The Authority reserves the right to request additional information for this screening process. Incomplete pre-applications will not be accepted or considered. Authority staff will evaluate all of the information submitted at this pre-application stage. Authority staff will conduct a walk-through of the property at this stage.

Section 236 Preservation proposals that are accepted at this pre-application stage will generally follow the requirements and procedures in this program outline.

To be eligible, proposals must satisfy all federal and state requirements for the use of private activity tax-exempt bond cap, HUD Section 236 "decoupling" for 236-assisted developments, and the Housing Tax Credit, if requested.

<u>Elements to a Typical Transaction</u>

The existing mortgage loan will be prepaid and the property refinanced as part of a new MSHDA first mortgage based upon standard underwriting criteria, with rents (unless further restricted by Housing Tax Credit or HUD limitations) negotiated to "market" levels, operating costs based on historical data unless modified by project improvements, and rehabilitation and soft costs at levels appropriate for both the specific transaction and the program. Proposals currently benefiting from Project-Based federal deep subsidies such as Rent Supplement, Rental

Assistance Payments or Section 8 assistance will be required to request and receive an extension from HUD of these contracts as part of the approval. This may result in a requirement that project rents be skewed to satisfy HUD requirements. Projects for which HUD approval of the extension is not obtained, despite reasonable efforts to do so, may be subsequently closed only in the event the Executive Director determines that it is likely that the mortgage loan will be prepaid absent this program and/or the project will have insufficient financial means to be properly maintained and/or operated absent the transaction.

The Section 236 Interest Reduction Payments ("IRP") contract is "decoupled" from the original mortgage and retained, with the approval of HUD, as a stream of income to support a second part of the MSHDA mortgage.

Program participants will apply for and receive an award of Housing Tax Credit (4%) for all or most units occupied by residents with incomes at or below 60 percent of area median income.

Existing project reserves and residual receipts may be available as sources for financing rehabilitation of the development.

The development is renovated, and a new replacement reserve is established, based upon a Preservation Capital Needs Assessment ("CNA") and MSHDA Standards of Design to the extent feasible, to assure a long-term extension of the useful life of the property. Particular attention to common areas, landscaping, and signage to maximize market acceptance will be expected.

The rents are increased through a budget-based approach to a level necessary to support the acquisition and rehabilitation, and will be limited to rents attainable in the market and approvable by MSHDA's Chief Market Specialist**,** but may not exceed comparable unassisted "market" rents. Rent increases on units covered under a Rent Supplement or Rental Assistance Payment contract may be further restricted to insure the continuance of the contract for its remaining term. Controls are in place to protect the existing residents of the developments, including Section 8 Enhanced Vouchers, and the retention of Rent Supplement or RAP contracts or a 20 year renewal of current Management Section 8 rental assistance.

General Project Eligibility

This program is available to housing developments in Michigan with some or all units assisted under the Section 236 Interest Reduction program. Developments containing a significant number of "efficiency" apartments are discouraged unless a strong current market is demonstrated or the proposal envisions reconfiguration of these units to more marketable unit types. For all preliminary proposals, Authority staff will review the development's operating history and conduct a walk-through of the property.

All proposals that involve prepayment and tax-exempt bond refinancing must include rehabilitation in an amount that satisfies the 15 percent test of the Internal Revenue Code for the use of private activity bond cap. To be eligible for Housing Tax Credit, all proposals must include at least $5,000 per unit in hard construction costs and the proposed tax exempt financing must equal at least 51% of the total development cost.

At a minimum, the proposal must provide for income and rent restrictions on 40 percent of the units, targeting those units to households with incomes at or below 60 percent of area median income. Except for developments specifically designated for elderly occupancy, the applicable percentage of each unit type must be targeted. The developer may elect to target and claim Housing Tax Credit for additional units, subject to market analysis.

Involuntary permanent relocation of existing residents is not permitted under the program.

Proposal Submission Requirements

The Authority will require a 20-year Preservation Capital Needs Assessment ("CNA") with an itemized cost breakdown. This assessment will be performed by a third party contracted by the Authority and will take approximately 60 to 90 days to complete from the time it is requested. Applicants who have already obtained a CNA on the subject property may submit a copy of the final report for review, but the Authority is not obligated to accept a sponsor-contracted CNA for underwriting purposes. Applicants accepted for processing may request that a CNA be ordered prior to the submission of a full proposal. Such requests must be accompanied by a CNA fee as determined by MSHDA or (in the case of a MSHDA-financed property) by authorization from the current project owner to pay the cost of the CNA from the project replacement reserve.

The Authority will also require a certified general appraisal to establish the "as-is" value of the property as a market rate rental and "as rehabilitated" as a subsidized rental development. This appraisal will be contracted for by the Authority and will take 60 to 90 days from the time it is requested. Appraisals contracted by the current property owner or the prospective purchaser will not be acceptable. Applicants accepted for processing may request that an appraisal be ordered prior to the submission of a full proposal. Such requests must be accompanied by an appraisal fee of $6,000.

Full submissions to MSHDA must include, without exception:

1. A completed, current year, Combined Application for Rental Housing Programs including, but not limited to, evidence of site control, an independent market analysis and rent comparability study, and an environmental site assessment. Developers should follow the "Addendum VII: 236 Preservation Program" checklist contained within the Combined Application.

2. A non-refundable check for the Housing Tax Credit application fee and a non-refundable check for the preservation program application fee of $500 (which is in addition to any amounts previously paid to MSHDA to obtain a CNA or appraisal).–

3. The 20-year Preservation Capital Needs Assessment and certified general appraisal, if they have been obtained earlier.

4. Information regarding the current residents of the development, including gross annual income as of the last recertification, rent currently paid, age, length of residency, and other demographics. (Information that would serve to identify specific residents must not be included.) Vacancy rates and turnover data for the past 3 years will also be required. See MSHDA's Market Guidelines specific to the Section 236/202 Preservation Program.

5. A commitment to maintain the existing tenant income and rental restrictions described above until the later of 1) the original mortgage term plus five years as required by HUD, 2) the Housing Tax Credit compliance period, 3) federal rental subsidies are available, or 4) so long as the Authority's mortgage remains outstanding.

6. At the same time or shortly after submission of a full proposal to the Authority, sponsors will also be required to submit certain documentation to the U.S. Department of Housing and Urban Development to obtain approvals from that agency, including:

7. Previous Participation (HUD Form 2530) of the Sponsor/Purchaser and of the proposed property management agent.

8. The proposed return on equity.

9. Decoupling from and continuation of the Interest Reduction Payments (IRP) assistance for the remaining term of the original mortgage.

10. A budget-based rental structure.

11. A HUD regulation waiver to permit an extension of the RAP or Rent Supplement contract beyond the term of the original mortgage and approval of an assignment of that contract to the new owner. Alternatively, a long-term extension of any existing Management Section 8 HAP contract will be required.

12. Commitment for the issuance of Section 8 Enhanced Vouchers for all current residents eligible under the program and not otherwise receiving RAP, Rent Supplement, or Management Section 8 subsidy assistance, and

13. Any required Subsidy Layering review and certification.

Loan Terms

It is anticipated that the current mortgages on these properties will be prepaid, and that a new first mortgage will be made. The current loan terms and underwriting standards of the Authority for these transactions include:

- The Authority's loan must be secured by a first mortgage on the property. The loan will be comprised of two parts. "Part A" is the debt that can be supported by the rental income of the property, less vacancy loss, operating expenses, reserves, and escrows. "Part B" is the debt that can be supported by the continuing stream of income from the "decoupled" Interest Reduction Payments contract.

  "Part A" of the first mortgage will be underwritten at a fixed rate over a fully amortizing 35 year term and with a minimum of a 1.10 debt coverage ratio.

  "Part B" of the first mortgage will be underwritten at a fixed rate over a fully amortizing term not to exceed the term remaining on the Interest Reduction Payments contract and with a 1.0 debt coverage ratio.

- The current rate is published on MSHDA's Web site at www.michigan.gov/mshda. Interest rates are subject to periodic review of market conditions by the Authority and may be changed. The rate applicable to the project will be the rate effective on the date a completed application is received and the full application fee is paid and will not be subject to increase for 6 months. If a preservation proposal has not achieved mortgage loan commitment within 6 months of the date of submission of the full proposal and MSHDA's rate of lending has increased, the currently applicable rate will be substituted for the rate at acceptance, unless extended by MSHDA for good cause.

- Mortgages are limited to 90% of "total development cost," an inclusive statement of all uses of cash necessary to complete the acquisition, rehabilitation, and funding of reserves. Tax-exempt, bond-funded mortgages must be at least 51% of total development cost to retain eligibility for 4% Housing Tax Credit.

- The annual deposit to the replacement reserve in the first full year following the refinancing will not be less than $300 per unit. To the extent that rehabilitation of the development does not address all issues raised by the Capital Needs Assessment, the replacement reserve must be capitalized and/or funded annually in an amount necessary to meet anticipated future funding needs.

- Vacancy loss will be budgeted at a minimum to 5% of gross rent potential. Vacancy loss in excess of 5% may be required as recommended by the Authority's Chief Market Specialist.

- One month's gross rent potential will be required to be deposited to the operating account of the development at closing. Additional reserves may be required, including but not limited to 1) a capitalized replacement reserve, 2) a "rent-lag" escrow, 3) an operating assurance escrow calculated at 12 months of principal and interest payments on the "Part A" mortgage to be held by MSHDA, or other MSHDA-determined "remarketing" reserve and 4) an escrow to mitigate the rental increases that would otherwise be imposed on the existing residents of the development as a result of the prepayment and refinancing.

- The Authority will underwrite the loans under its standard procedures. Underwriting reviews include, but are not limited to 1) the financial and/or technical capacity and prior experience of all members of the development team, 2) market analysis, 3) an environmental assessment of the property, 4) all legal documents associated with the transaction, 5) the proposed annual operating budget and the estimation of tenant-paid utilities, 6) the Affirmative Fair Housing Marketing Plan and the builder's Equal Employment Opportunity Plan, and 7) the existing physical status of the development and the proposed scope of work.

- HUD approval of the transaction will be a condition of any commitment and closing. The approvals from HUD must be consistent with the program and development proforma stated in the Authority's mortgage loan commitment staff report.

- A loan origination fee of 2% of the mortgage amount will be collected at closing. The mortgage amount includes both “Part A” and “Part B.” A credit will be given for the appraisal and CNA fees paid, but not for application fees, tax credit fees or extension fees.

- A licensed general contractor must be retained to carry out the rehabilitation work. Unless rehabilitation levels are determined by the Authority to be minimal, Authority staff will periodically inspect the progress of the rehabilitation and approve draws against the construction contract.

- Construction contract allowances for builder profit, overhead, and general requirements will be limited to 6%, 2%, and 6% respectively.

- Cost certification will be required of both the contractor and the mortgagor.

For previously MSHDA-financed 236 developments, existing project reserves accruing to the Authority as a result of the mortgage prepayment will be made available as a source of funding for the transaction at 3% simple interest, to be repaid upon sale, refinancing or pay-off of the new mortgage loan. Existing tax and insurance escrows will be transferred to the new owner and will not be included in the MSHDA loan of reserves. Upon repayment of the new first mortgage, any reserve amounts on deposit with the Authority that are derived from project revenues and the interest thereon will be available to pay any deferred developer fee or cumulative unpaid limited distributions to which the owner is entitled. Any remaining balance in the reserve accounts will belong to the Authority.

The new mortgages may not be prepaid until the later of the original first mortgage term or 20 years following the date of the first payment on principal.

Return on equity investment will be limited to the amount approved by HUD in the decoupling approval, subject to the Authority’s confirmation that such amount does not exceed its statutory limitations.

Proposals must close within 90 days of MSHDA Board approval of the mortgage loan commitment on a date acceptable to the Authority. In situations where bond cap remains available in the current year program, the Executive Director may grant one or more 30-day extensions to the 90-day closing deadline. The first extension will be automatic unless the Authority determines that bond cap may be lost. Second and subsequent extensions will require a $5,000 non-refundable additional fee and a similar evaluation as to the availability of bond cap. No credit for extension fees will be given against the 2% loan origination fee. Owners must be “eligible mortgagors” under the Authority’s Act and grant a first priority mortgage lien and security interest in the development to the Authority as security for the mortgage loan. The Authority will likely use the HUD Risk Sharing mortgage insurance program after rehabilitation has been completed, and owners must agree to comply with all requirements of that program.

All other terms and conditions of the preservation loan transaction will be set forth in the loan documents prepared by the Authority’s Office of Legal Affairs.